

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AGR-05 AID-05 EB-07 IO-13 USIA-06

COME-00 TRSE-00 CIAE-00 DODE-00 PM-04 H-02 INR-07

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R 291525Z APR 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 2571

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E.O. 11652: N/A

TAGS: ECON EGEN PFOR EG

SUBJ: HIGHER PLANNING COMMITTEE DISCUSSES SUBSIDY REDUCTION

REF: CAIRO 5750

1. ACCORDING TO PRESS REPORTS APRIL 29, HIGHER PLANNING COMMITTEE DISCUSSED APRIL 28 MEMORANDA SUBMITTED BY MINISTRIES OF FINANCE PLANNING, INDUSTRY AND TRADE CONCERNING SUBSIDIZATION OF CERTAIN COMMODITIES AND SERVICES. PRESS REPORTS THAT TOTAL SUBSIDY BUDGET FOR 1976 IS NOW 511 MILLION. HIGHER PLANNING COMMITTEE RECOMMENDED FOLLOWING:

- A. RETENTION OF SUBSIDIES FOR ESSENTIAL COMMODITIES, I.E. FOODSTUFFS, POPULAR PRODUCTS AND SERVICES, ESPECIALLY BALADI BREAD AND RATIONED COMMODITIES, POPULAR CLOTHING AND TRANSPORTATION FARES.
- B. PROVISION NECESSARY MEASURES TO INSURE THAT SUBSIDY FUNDS FOR CERTAIN COMMODITIES ARE NOT MISAPPROPRIATED.
- C. INSURE THAT SUBSIDIES ARE NOT USED FOR PRODUCTION OF LUXURY GOODS.
- D. GUARANTEE GENERAL PRICE STABILITY.
- E. STUDY EFFECT OF SUBSIDY REDUCTION ON DEMAND FOR SUBSTITUTE GOODS.

2. FOLLOWING MEETING, MININFO OTEIFY SAID COMMITTEE REVIEWED SUBSIDIES WITH AIM OF IDENTIFYING SUBSIDIES THAT

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COULD BE REDUCED BY AVERAGE OF 20 PERCENT. MINISTRIES

INVOLVED HAVE BEEN ASKED TO MAKE DETAILED STUDIES AND TO SUBMIT RESULTS TO CABINET ON MAY 2. OTEIFY EXPLAINED THAT STUDY OF SUBSIDIES IS PART OF GOVERNMENT PLEDGE TO CUT EXPENDITURES, CURB LUXURY COMSUMPTION, CUT INFLATION, CLOSE BALANCE OF PAYMENTS GAP AND ENSURE PRICE STABILITY.

3. OTEIFY WENT ON TO SAY THAT GOVERNMENT HAS ALREADY SPENT LE 200 MILLION FOR RELIEF OF LOW INCOME EARNERS INCLUDING LE 70 MILLION FOR JOB REFORM, LE 25 MILLION FOR COST OF LIVING ALLOWANCE INCREASES, LE 22 MILLION TO PREVENT COST OF LIVING ALLOWANCES FROM BEING DEDUCTED FROM SALARY INCREASES. AND 70 MILLION TO STABALIZE THE SELLING PRICE OF AGRICULTURAL PRODUCTS. CURRENT SUBSIDY STUDIES WOULD IMPROVE PURCHASING POWER OF LOW INCOME EARNERS.

4. COMMENT: HIGHER PLANNING COMMITTEE HAS NOW APPROVED SUBSIDY CUTS. IT REMAINS FOR MINISTERS TO WORK OUT JUST WHERE CUTS WILL BE MADE. ALTHOUGH THIS IS THE MOST POLITICALLY SENSITIVE DECISION OF THE ENTIRE SUBSIDY REDUCTION SCENARIO, NEVERTHELESS FACT THAT BOTH PRESIDENT AND HIGHER PLANNING COMMITTEE HAVE APPROVED SUBSIDY CUTS IS RELATIVE MILESTONE IN EGYPTIAN POLITICO/ECONOMIC HISTORY.  
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